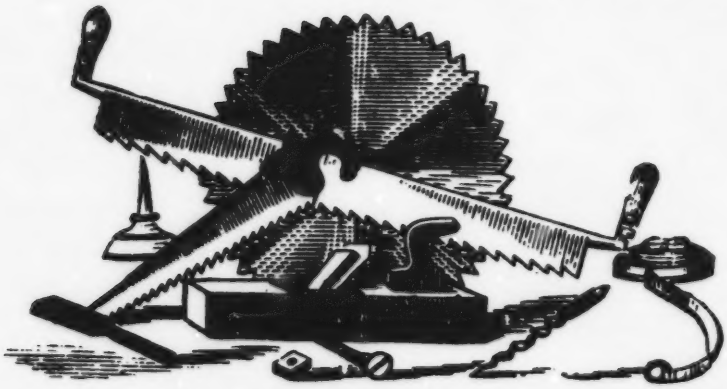
RESERVE FUNDS



Financial tools for the repair and rehabilitation of public recreation facilities

Ontario
Ministry of Tourism and Recreation

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SECTION I:

INTRODUCTION

USING THIS REPORT

This report is an introduction to the use of reserve funds by municipal recreation departments or by those boards and committees providing recreation services. Both municipal and provincial authorities are concerned about the future costs of recreation service and program delivery. Reserve funds are a financial management tool that provide a means through which your community can set aside moneys for major repairs and/or replacement of existing facilities and equipment.

This report reviews those circumstances which have led municipalities to establish reserve funds. It looks at the technical and legislative distinction between "obligatory" and "discretionary" reserve funds. It shows how to set up a reserve fund and answers many of the questions commonly asked by municipal recreation departments, boards and committees.

You will see that **awareness**, **visibility** and **flexibility** are the keys to successful utilization of this financial management technique.

The Town of **Lincoln** (14,199) has had a long tradition of employing discretionary reserve funds as a financial management tool. The Town has a general Municipal Building Reserve Fund from which funds were provided to replace the arena roof (1983). The Town has also established several short-term specific reserve funds such as the fund for the eventual replacement of the arena ice plant.

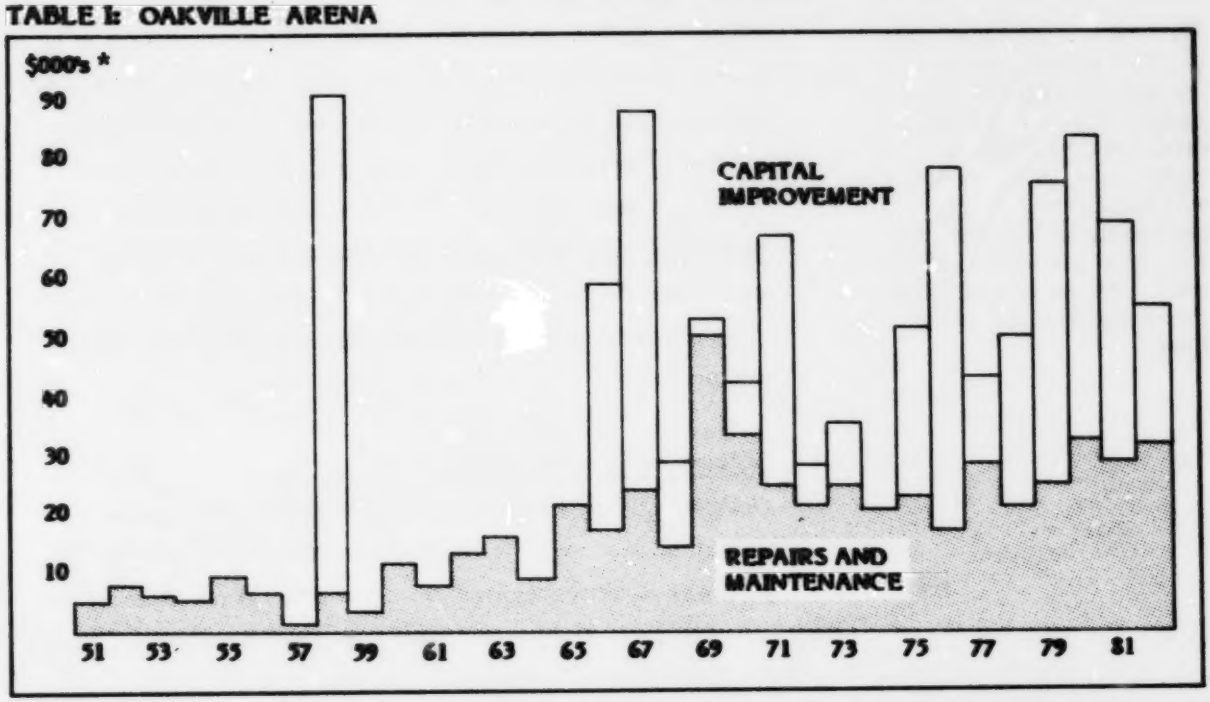
The Police Village of **Warkworth's** (611) Arena Board, following the completion of their new arena, established a discretionary reserve fund in 1982 for the maintenance and repair of the facility. Assets are accumulated through ongoing fund-raising drives and other donations.

SAVING FOR A RAINY DAY

Maintenance and repair costs during the useful life of facilities and equipment often exceeds the original construction cost. While conscientious financial practices have enabled local governments to support these initial capital costs and the ensuing day-to-day operational costs, most municipal officials agree that major replacement and alteration costs represent a major concern. Table I illustrates how capital improvement and repairs and maintenance costs increased dramatically following the first 10 to 15 years of operation of a municipal arena.

Unexpected expenditures that result from breakdowns or failures of existing facilities and/or equipment, can place an added burden upon municipal revenue sources. One method of setting aside the necessary moneys to finance these major repairs and replacements is to use a reserve fund. In larger municipalities, this financial management tool is extensively employed. In recent years, there has been a movement towards its adoption by smaller municipal governments.

TABLE I: OAKVILLE ARENA



* (1982 $)

The Town of **Renfrew** (8,195) in reaction to the inevitable depreciation of their existing capital investments established a discretionary reserve fund for replacement and major repair of recreational equipment in 1976. The fund has been used to support the costs of replacing and repairing motor vehicles, groundskeeping and maintenance equipment.

Those local governments currently enjoying the benefits derived from reserve funds whole-heartedly recommend their adoption by other municipalities. They insist that as a financial management and planning mechanism, reserve funds help to control costs to taxpayers by extending the life of existing facilities and equipment, incorporating long-term financial planning needs into current operational budgets, and reducing the need for municipalities to borrow money to cover previously unexpected expenses.

A DEFINITION

Reserve Funds: Reserve funds are special accounts used by municipalities to set aside money to meet large future expenditures for replacement and/or repair to existing

The Township of South Easthope's (1,831) Community Centre board, on the advice of the Clerk, established a reserve fund for the maintenance and repair of the Centre. Each year the Board allocates $2,500 for this purpose.

The Town of Kirkland Lake (11,885) established a recreational facility reserve fund in 1980. The fund receives a $5000/year installment from council and was established as a safeguard for the day when the old arena would require work. At the end of 1982, there was $17,261 in the fund.

facilities and equipment. These funds are established for a predetermined purpose and to ensure that the revenues placed in them are used for that purpose.

GOVERNING LEGISLATION

There are two types of reserve funds: discretionary and obligatory.

Discretionary Reserve Funds

Discretionary reserve funds are established whenever a municipal council wishes to earmark revenues to finance any specific future project for which it has authority to spend money. The authority for creating discretionary reserve funds is found under Chapter 302, Section 165 of the Municipal Act. Municipal council is required to pass a bylaw which defines the purposes for which the fund may be used (ie. replacement and/or repair to existing facilities or equipment).

Obligatory Reserve Funds

Obligatory reserve funds must be created whenever a provincial statute requires revenue received for special purposes to be segregated from the general revenues of the municipality. Obligatory reserve funds are to be used solely for the purposes described by statute.

A familiar example is the "revenue in lieu of land for park purposes" set out under Section 50(12) of the Planning Act. This legislation requires that all municipalities establish a special reserve fund where all moneys received from the sale of park lands or from payments in lieu:

> shall be paid into a special account, and the moneys in such special account shall be expended only for the acquisition of lands to be used for park or other public recreational purposes, including the erection or repair of buildings or other structures thereon or for the maintenance of lands, buildings or structures used for park or other recreational purposes, including the acquisition of machinery and equipment required for such maintenance (Planning Act, Section 50(12)).

SECTION II:

DISCRETIONARY RESERVE FUNDS

WHY SHOULD WE USE THEM?

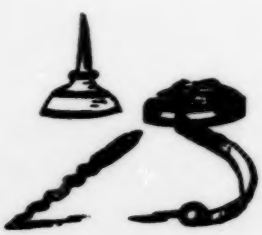
There are many economic, social and political realities which have motivated local governments to establish discretionary reserve funds. Though the motivation for doing so is varied, it generally can be linked to the following:

The Town of **Niagara-On-The-Lake** (12,220) has had a recreational equipment reserve fund in place since 1981. The fund has been used to replace lawn motors, trucks and the arena's compressor pump.

To help stabilize the general municipal tax levy. In times when large amounts of revenue are required to finance capital projects (e.g. maintenance to existing facilities; replacement or repair to costly pieces of equipment), a previously established discretionary reserve fund enables the municipality to cover expenses without affecting the general municipal tax levy or requiring the issuance of debentures or borrowing.

Demonstrates sound financial management and commitment to local citizens, other levels of government and other outside agencies. Those local governments demonstrating a long-term ability to finance and operate their existing resources will be in a much better position to negotiate with citizens and outside sources of funding.

Permits managers to manage. Those authorities responsible for managing the community program of recreation can develop long-term maintenance and replacement schedules for existing facilities and equipment. Discretionary reserve funds provide financial stability. This stability allows management to manage. Short-term "crisis management" can be replaced by long-term "planned management" strategies.



HOW DO WE ESTABLISH THEM?

Discretionary reserve funds are established whenever a municipality wishes to earmark revenues to finance any specific future project for which it has the authority to spend money. Motivation for establishing these funds generally originates at the departmental level, though council members and citizens have often served as the catalyst for this action.

The Town of **Penetanguishene** (5,342) has employed discretionary reserve funds for numerous recreational purposes. The most recent of these was in 1976 when the Town established a reserve fund for the replacement of the ice plant at the local arena.

The actual process of establishing a discretionary reserve fund consists of:

i) passing a bylaw in council to allocate what these segregated moneys may be used for,

ii) creating a separate account in which all moneys acquired, donated or provided are placed,

iii) depositing the contributions in this account.

The Village of **Petawawa** (5,232) has, since 1975, followed a policy whereby $2,000/year is allocated by council towards a discretionary reserve fund to finance repair and maintenance costs to the recreation and community centre.

The successful introduction of discretionary reserve funds depends upon your efforts! As the recreation director, a board or committee member, your energies are needed to convince your community of the reserve fund's value. Its success depends on you!

HOW MUCH MONEY SHOULD WE PUT IN THEM?

The assets held in discretionary reserve funds vary widely from one municipality to the next. Table II demonstrates the extent of this variation.

Discussions with municipalities utilizing discretionary reserve funds indicate that a broad range of processes and techniques are used to determine the size of their discretionary reserve funds. Though many approaches are employed, a review of these methods suggests that generally a four step process is involved.

Step 1. Complete a comprehensive inventory of all municipal recreational facilities and equipment. Most municipalities are responsible for an extensive existing capital stock. You may be unaware of the size of the fiscal responsibilities that the recreation department is charged with.

Step 2. Evaluate the current state of repair of each item. This depends primarily upon the age and previous maintenance completed on the facility or piece of equipment. It is often helpful during this stage to talk with manufacturers and suppliers of buildings, equipment and components. Table III shows costs of common repairs to typical recreation facilities.

TABLE II: SIZE OF MUNICIPAL RESERVE FUNDS BY POPULATION

Population of Municipality		Reserve Funds for the Replacement of Equipment	Reserve Funds for Capital Expenditures on Recreation and Library Facilities	Reserve Funds for Cash-in-Lieu-of-Land-for-Park Purposes
0 - 4,999	smallest	$ 1	$ 45	$ 31
	largest	$ 305,934	$ 453,299	$ 133,609
	average	$ 30,184	$ 20,892	$ 12,146
5,000 - 9,999	smallest	$ 1,059	$ 180	$ 22
	largest	$ 194,082	$ 199,959	$ 155,022
	average	$ 56,286	$ 45,919	$ 26,237
10,000 - 14,999	smallest	$ 8,146	$ 1,041	$ 1,880
	largest	$ 644,445	$ 125,064	$ 401,371
	average	$ 128,274	$ 40,451	$ 92,548
15,000 - 19,999	smallest	$ 21,585	$ 200	$ 1
	largest	$ 776,282	$ 125,472	$ 665,904
	average	$ 179,864	$ 47,103	$ 150,907
	Average	$ 49,567	$ 28,298	$ 33,087

Step 3. Predict the time and cost of major repairs and replacements. Incorporate these with the maintenance efforts of the recreation department. Calculate the total moneys required on a year-by-year basis.

Step 4. Establish the reserve fund and transfer moneys on a regular basis. The discretionary reserve fund ensures that when major replacements occur, moneys will be available to cover all or most of the costs.

TABLE III: TYPICAL RECREATION FACILITY REPAIR COSTS

FACILITY TYPE: ARENA

REPAIR/REPLACEMENT	COST	DATE
- replacement of board and safety screens	$ 84,900	1983
- installation of new ice refrigeration system	$ 123,920	1983
- replacement of tempered glass and plexiglass shields	$ 30,386	1983
- replacement of rink floor and piping	$ 109,576	1982
- heating system renovations	$ 86,360	1982
- replacement of existing arena floor and piping	$ 91,970	1982
- replacement of metal roofing	$ 55,246	1981
- installation of new prefinished exterior steel deck/roof	$ 127,564	1980
- repairs and replacement to steel deck/roof	$ 27,441	1979
- painting of structural steel and ceiling	$ 12,000	1979
- partial re-roofing	$ 26,853	1979

FACILITY TYPE: COMMUNITY CENTRE

REPAIR/REPLACEMENT	COST	DATE
- exterior stucco repairs and related work	$ 26,400	1983
- installation and repairs to roof	$ 2,500	1983
- repairing leaky roof and washrooms	$ 37,773	1982
- fire screen and alarm renovations	$ 17,750	1982
- installation of 2,100 lb. capacity elevator	$ 93,670	1981
- supply and installation of new prefabricated roof	$ 26,500	1981
- gymnasium and stage floor refinishing (hardwood floor)	$ 2,285	1978

FACILITY TYPE: SWIMMING POOL

REPAIR/REPLACEMENT	COST	DATE
- pool renovation with fibreglass coating	$ 47,250	1983
- installation of solar heating system	$ 63,900	1982
- supply and installation of roof	$ 43,775	1982
- installation of solar energy collection system	$ 62,500	1982
- installation of ventilation and air-conditioning system	$ 13,995	1982
- heating and ventilation system improvements	$ 47,774	1982
- replacement of piping	$ 14,341	1981
- installation of ceramic tile on swimming pool deck	$ 30,000	1981
- installation of structural reinforcements to existing facility	$ 19,630	1979

WHERE DO THE MONEYS COME FROM?

The moneys placed into a discretionary reserve fund come from two sources —existing municipal revenues and other sources.

Municipal Revenues

Department's budget submission - the reserve fund becomes part of the recreation department's annual budget submission to council. This is the most common source of revenue for reserve funds.

Lot levies - a formal agreement is established between council and all the municipality's departments whereby all moneys from lot levies are placed in a general reserve fund and are allocated to individual departments.

Dollar per resident program - the municipal recreation department establishes a promotional program which encourages council to donate one dollar or other fixed amount for every resident or participant towards the reserve fund.

Registration fee system - the municipal recreation department promotes a program whereby one dollar or a percentage of each program registration is placed in the department's reserve fund.

The Town of **Simcoe** (14,181) established a Municipal Development Reserve Fund in 1975. Funds are provided through lot levies collected by the Town. At the end of 1982 the Fund had accumulated $234,985. Twenty percent of these funds have been allocated directly towards public parks. To date, the fund has provided moneys to replace and to add park equipment.

The City of **Chatham** (40,454) has established a program whereby one dollar from each program registration is placed directly into the recreation department's discretionary reserve fund.

Other Sources

Smaller municipalities need to actively develop "alternative" sources of moneys for their discretionary reserve funds. Establish an effective "grass roots" support for the reserve fund concept! Some of the methods currently employed to raise moneys are listed below.

Municipal lotteries - exercising their right to sponsor lotteries, municipal recreation departments have established these on-going revenue sources. They link their success to the fact that all moneys generated are placed directly into the reserve funds. Hence, residents enjoy the knowledge that their dollars are being spent for a specific cause which directly benefits them.

The Town of **Orangeville** (13,969) established "Parkloto" which, as a municipal lottery, provides funds for specific recreational development and replacement projects.

Fund raising proceeds - the results of volunteer efforts at raising moneys are placed in a reserve fund. Fund raisers for the capital funds to construct a new facility may wish to continue their successful efforts by establishing a reserve fund for the new facility.

The Town of **Grimsby** (15,515) established a discretionary reserve fund in 1982 to replace/rebuild their municipal arena. Funds have been collected from lot levies, the municipal tax levy and revenue generated by a fund-raising board. In 1982 the Town established a recreation and parks equipment reserve fund. The fund has been used to replace a dump truck and to add a new filtration system at the community pool.

WHEN CAN WE SPEND THEM?

The assets in discretionary reserve funds can be spent on:

i) Those purposes/projects specifically defined by the original bylaw;

ii) "... a purpose other than that for which the fund was established..."

Note: Council may change the bylaw governing the reserve fund. Section 165(4) of the Municipal Act reads:

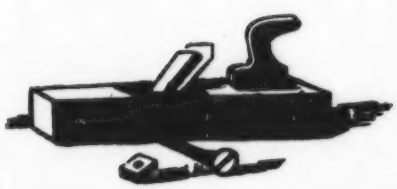
The council may by by-law provide that the moneys raised for a reserve fund established under subsection (1) may be expended, pledged, or applied to a purpose other than that for which the fund was established.

This amendment was included in the Municipal Act to provide council with additional flexibility. It rests upon the principle that since the bylaw was created by council, the bylaw can also be altered/abolished by council. Changing the original purposes of discretionary reserve funds typically occurs when the intent of the discretionary reserve fund has been narrowly defined. To avoid the need of formal changes, it is recommended that the original intent of the discretionary reserve fund be broadly stated. Flexibility is achieved by keeping the wording of the bylaw general rather than specific. For example, a definition of the intended use could be "recreational repair and replacement purposes" rather than "swimming pool maintenance", or "recreational equipment replacement" rather than "lawn mower replacement". It is important to remember, however, that the wording should be specific enough to ensure that the funds are used only for those purposes originally intended (e.g. for replacement or repair of existing recreational facilities or equipment).

The Village of **Petawawa** (5,232) uses its discretionary reserve fund to cover immediate unexpected expenses that result from major breakdowns of equipment. This permits the Village to resume services as quickly as possible. Following this expenditure, the Village then calls upon local service clubs and organizations to restore the assets of the fund back to the original level.

ARE THERE OTHER MEANS AVAILABLE TO SET ASIDE MONEYS?

YES! For those instances where, for one reason or another, discretionary reserve funds are unsuitable, municipalities have several other options. These include:



Informal reserve funds - in many smaller municipalities, various service clubs, groups and organizations have traditionally been very active in sponsoring efforts to acquire moneys for immediate capital investment projects. As a step beyond these singular "grass root" efforts, some municipal recreation departments have included the various citizen groups in the long-term planning of facility and equipment maintenance programs.

Service clubs, and others, are encouraged to accept responsibility for establishing their own reserve funds which are earmarked for a specific community project or replacement effort. When the time arrives that repair or replacement must be completed, the citizen group then provides the appropriate moneys to the recreation department from their reserve fund. By promoting this strategy municipal recreation departments have increased their financial stability while citizen-based organizations are able to maintain some control and flexibility over their commitment to the municipality.

This past year (1983) the Town of **Amherstburg** (8,261) adopted a policy whereby $15,000/year will be allocated by council directly towards a discretionary reserve fund to finance future repair and replacement costs to their arena.

Obligatory reserve funds - municipalities may place any moneys they desire into the "cash in lieu of parkland" reserve fund established by the Planning Act. Section 50(11) states that:

The council of a municipality may include in its estimates an amount to be used for the acquisition of lands to be used for park or other public recreational purposes and may pay into the fund provided for in subsection (12) the sum so included in the estimates, and any person may pay any sum into the same fund.

This statute permits municipalities to place any moneys they choose into the obligatory reserve fund established under the Planning Act. In those instances where it is preferred not to establish a separate "discretionary" reserve fund, this provides an alternative means of ensuring that moneys are utilized for general recreational purposes.

SECTION III:

PROS AND CONS

The Town of Simcoe (14,181) has used its recreational equipment reserve fund, established in the late 1960's, to buy a tractor and repair and maintain the arena and recreation centre. In 1979 the Town established a recreational facility reserve fund which has been used to maintain the arena and recreation centre. The funds for these reserves are provided by council from the tax levy.

INTRODUCTION

As is the case with all refinements to existing financial planning and management practices, there exists a wide range of possible reactions by various local bodies to the introduction and application of discretionary reserve funds. Discussions with municipalities currently utilizing discretionary reserve funds produced both positive and negative reactions. It is important that the instigator of this action--be it the recreation director, board and/or committee--be aware of these various pros and cons. By carefully preparing for these reactions, managers can develop an effective means of overcoming opposition and instilling a sense of worth and support for the proposal.

MUNICIPAL COUNCILS

Pros

Provide long-term financial stability (thereby avoiding fluctuations to the mil rate).

Reduce the probability of being forced to borrow money or to issue debentures as a result of unexpected expenses.

Coordinate council's long-term planning and development strategy with the recreation department's.

Allow today's decisions to be made with an eye on the future.

Cons

Represent current expenditure that provide no immediate results (the visibility of paying into a reserve fund is often questioned!).

Do not like increasing the tax levy, even marginally, to cover reserve fund allocations.

Feel they may have less control over allocation of municipal moneys if individual departments are permitted to establish independent reserve funds.

CITIZENS, LOCAL GROUPS AND ORGANIZATIONS

Pros

See a concrete effort by the municipality to stabilize revenue needs and thus control taxes.

Create a sense of community and community ownership by including residents/groups in the long-term funding and planning of facilities and developments.

Provide targets and a means of assisting the municipality with the provision of recreational programs and services.

Develop an awareness of the "cost of service" relationship.

Cons

May be reluctant to provide moneys for the long-term development/maintenance of existing facilities (i.e. "I don't plan to be living here in three years, so why should I have to pay!).

May not trust council or administrators to keep their end of the bargain (i.e. contend that since bylaws can be changed, it is not certain that the discretionary reserve funds will be used for their intended purpose).

May not be willing to become involved in long-term fund raising exercises (i.e. prefer highly visible short-term commitments where there is one fund-raising drive for a predetermined length of time).

May not be willing to continually turn moneys over to the discretionary reserve fund because they feel they do not receive the recognition and appreciation that they would normally achieve by providing one large donation for a specified project.

The City of **Stratford** (26,292) established a reserve fund for recreational equipment replacement and maintenance in 1980. Also at that time, similar reserve funds were established for each of its major arenas and the pool. These reserve funds are used for mechanical equipment and facility repair expenditures. One of these funds was recently utilized to finance the replacement of a compressor at one of the arenas.

RECREATION DIRECTORS, BOARDS AND COMMITTEES

Pros

Provide financial stability over the long-term.

Enable the development and planning of facility and equipment replacement and maintenance schedules.

Include council and other departments in the coordination of long-term projects and plans.

Establish a greater degree of responsibility in financial planning and decision-making.

Cons

Require the formation of goals and objectives for the development of a long-term comprehensive facility and equipment replacement and maintenance schedule (i.e. force those charged with the provision of recreation services and programs to systematically analyze and determine the nature and extent of their efforts over the long-term).

May be difficult to get off the ground.

Arena roof repairs would be costly

SMALL TOWN, ONT.-- The leaky roof at the local arena was the one hitch which plagued the trade show over the weekend. A number of exhibitors in the arena for the three day show were rained out on Saturday. Arena workers had to erect a makeshift plastic roof inside the building to channel water away from the crowds and display booths.

"Maybe it will bring matters to a head" an apologetic Parks and Recreation Director stated. The Director indicated that he had been aware of the problem for some time, but his hands are tied because of a lack of funds. He estimated the cost of replacing the 21-year-old roof at between $60,000 and $80,000.

"We could patch it up and try to make do", the Director admitted "but even that would cost between $2,500 and $5,000. There's only $1,000 in this year's budget for the roof. We spent $950 last year patching leaks. How often can we patch it up?"

The problem stems from the fact that the shingles have cracked on the roof over the years. Heating in summer and cooling in winter have taken their toll. "One side is breaking up. It's just age and the effects of the weather. The roof itself is alright".

The Director fears, however, that deterioration of the shingles may lead to worse problems down the road. If water continues to seep in between the shingles and tarpaper, he suspects wood rot will set in. In that case, the whole roof -- wood and beams -- would have to be replaced.

"It's just a matter of getting the funds to do the job. The board is aware of the problem and council is aware of the problem. Maybe, after the complaints this weekend, there will be enough public concern to have the job done".

SECTION IV:

FOR THE MANAGER

The Town of **Walden** (9,959) has set up a reserve fund which relates specifically to recreation. The recreational equipment reserve, established in 1978, receives annual installments from council. At the conclusion of 1982, $18,000 was in place. Thus far the fund has been used to buy lawn mowers and replace and repair playground equipment. The arena maintenance reserve fund, established in 1976, has been used to replace the boards and protective glass, and similar renovations.

INTRODUCTION

Discussions with those municipalities currently utilizing discretionary reserve funds for ongoing facility maintenance and equipment replacement, indicate that the most critical determinant of **success lies in the ability and commitment of the manager** --- be it the recreation director, board or committee. The manager must effectively promote the concept to members of the general public, community organizations, and municipal council. As Section III of this report emphasized, each of these groups regard discretionary reserve funds in both a positive and negative light. It is the role of the manager to highlight the desirable aspects of a reserve fund while taking steps to reduce the concerns that others may have.

The most effective means of building support for discretionary reserve funds is to carefully prepare your approach to these various interest groups. You must demonstrate how each "partner" can benefit from reserve funds. You must strive to establish **awareness**, maintain **visibility** and ensure **flexibility**.

THE PROCESS

Identify your needs - it is desirable to begin your approach by determining exactly where discretionary reserve funds will best serve your current operation. Perhaps the most effective means of determining your needs is through the development of a comprehensive facility and equipment inventory (if one does not already exist). Once this is completed you can then assess the current state of these existing capital resources. Following this process you will need to formulate long-term predictions of your revenue needs for facility/equipment replacement and maintenance.

Build support (awareness) - having formulated these long-term predictions, your next task is to establish support for the proposal. Before approaching council, it may be best to generate "grass roots" support. By actively promoting the concept amongst service clubs, organizations and the general public, it is possible to establish a relatively secure base of support. The emphasis here is to create an awarenesss of the benefits derived from having and using moneys from the funds. In this stage, therefore, managers must act as educators.

The Bellgrave Community Centre Board operates the arena and parks complex in the Township of **East Wawanosh** (853). Following major structural renovations to the arena in 1978, the Board established a reserve fund. Since that time, over $12,000 has been set aside for major repair and replacement projects.

Once "grass roots" support is generated, you can then formally approach council. Remember, it is up to council to establish the bylaw for discretionary reserve funds. Without council's blessing, no municipality can enjoy the advantages of a discretionary reserve fund!

Make it visible - perhaps the most effective means of acquiring both "grass roots" and council support for the introduction of discretionary reserve funds is to develop an effective promotional campaign. Visibility is the key word. As noted throughout Section III, the underlying argument against this financial management tool was its lack of visibility. Funding sources prefer to allocate revenue towards projects that provide immediate results. Long-term repair and replacement programs which maintain current levels of service, tend not to provide this high visibility. To overcome this short-coming, managers must take the lead in promoting this action. Those who provide the moneys must be commended for their efforts. The general public must be familiar with the objectives of the program and of those who are providing the moneys for it.

The Town of **Dunnville** (11,226) since 1978 has had a recreational reserve fund. The fund, which receives a yearly installment of $20,000 from council, has been used to replace the compressor at the arena and to fund other renovations to the arena.

Keep it flexible - to ensure longevity of your department's discretionary reserve funds, it is important that the bylaws establishing them are flexible. Flexibility allows a range of possible uses for the gathered moneys. If the bylaw too narrowly defines the intent of the discretionary reserve fund, council may, for one reason or another, be forced to change or abolish the existing bylaw.

SOURCES OF MONEYS

Remember that there exists two traditional sources of financing discretionary reserve funds --- municipal and other outside sources. In both instances, it is solely up to the managers whether or not all potential sources are utilized. Do not limit yourselves simply to those methods listed in this report. Innovative fund-raising techniques are possible. Do not be afraid to experiment. After all, the money you acquire through these efforts will reduce your demands upon the municipal tax dollar.

FINAL NOTE

Throughout this report there has been an underlying emphasis placed upon the "political" realities surrounding this financial management strategy. All major interest groups in your community are likely to possess strong reactions to the introduction of discretionary reserve funds. Discussions with those communities currently employing this device indicated that initial opposition to discretionary reserve funds was significant. However, these same municipalities reported that following the introduction of discretionary reserve funds, community support blossomed.

Quite clearly it becomes a matter of the manager being sensitive to needs and fears of citizens, community groups and council. Managers must be prepared to field questions and reduce uncertainties. All possible steps should be taken to ensure that the major interest groups are satisfied with the conditions pertaining to the utilization of these funds. If they are not satisfied that their concerns were considered, they will likely be unwilling to finance the reserve fund once it is put into place.

The Town of Fort Francis (8,561) established four separate reserve funds for each of their major recreational facilities in 1979. The museum, arena, pool and park each have a capital reserve fund. As of August 4, 1983, Council had placed $97,431.77 into these reserves from the municipal tax levy. To date, the fund has been used to replace an ice resurfacer, an alarm system and a 12 ton truck.

The need for a planned approach to facility management is increasingly recognized because of the financial impact on a municipality. Reserve funds can act as partners with preventative maintenance programs in helping to add some control to this volatile dimension of municipal operation. Many recreation departments have adopted or are planning preventative maintenance programs. They recognize that all facilities and equipment pass through complex life cycles which start with the initial creation or purchase and then proceed through the stages of use, modification and adaptation, to final deterioration and obsolescence.

Preventative maintenance programs incorporate the development of systematic strategies whereby the life expectancies of all existing facilities and equipment are plotted. These programs help to predict the timing and extent of major repair and replacement needs to facilities and equipment. This helps to provide the recreation manager and council with an accurate indication of revenue needs for the years to come. It also ensures that disruptions to recreation programs and services are minimized. Reserve funds provide the financial means to accomplish this.

CASE STUDY:

CITY OF WOODSTOCK'S MUNICIPALITY-WIDE RESERVE FUND FOR REPAIRS TO MUNICIPAL BUILDINGS

Introduction

In 1980 following careful review of their existing policy, the City of Woodstock (pop. 26,390) concluded that a municipality-wide approach to reserve funds would be the most appropriate. They adopted the view that controlling major repair and replacement costs to municipal facilities is an issue for all municipal services and operations, not just recreation. The fund they established finances major repair and replacement projects for all municipally-owned facilities.

Background

The City of Woodstock's commitment to a municipality-wide reserve fund policy came about because of a natural disaster. In 1978 a tornado ripped its way through southern Ontario. Many of Woodstock's municipally-owned facilities suffered extensive damage. The city's greenhouses were destroyed and the arena roof was damaged. Financing the repairs to these facilities placed a large burden on the municipality.

Following an extensive clean-up and repair program, several municipal departments began to investigate means of safeguarding the city against a similar crisis. In November 1979, municipal staff prepared a report which proposed that a

reserve fund be established to cover major expenditures required for the repair of municipal buildings. The reserve fund was proposed as a means of levelling the major yearly expenditures for repairs to municipal buildings.

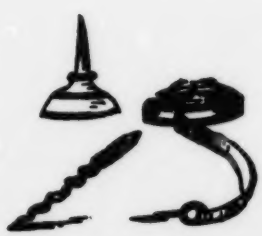
After several months of review and discussions, City Council, the Municipal Services Committee, all municipal departments and operations, the Library Board and the Police Commission agreed to participate in a municipality-wide program. On September 4, 1980, City Council adopted a policy which established the "Reserve for Repairs to Municipal Buildings".

The Policy

Woodstock's first step towards incorporating a municipality-wide reserve fund policy was to formulate the conditions of a funding agreement between all municipal partners. It was determined that the Reserve would be maintained at a level "equal to triple the yearly average expenditure of the city throughout its organization for the repair of municipal buildings and related fixtures".

The yearly average was calculated on the basis of a fifteen year period of actual experience and future projected costs. Starting with 1979, these costs were adjusted to reflect the current year's value (1980) of the dollar. The formula projected a yearly cost of $100,000 for repairs to municipal buildings. Hence, Woodstock seeks to maintain a reserve of $300,000, or three times the projected revenue needs.

To maintain the Reserve at its operational level of $300,000, a revenue acquisition procedure was formulated. Each department/service participating in the program is required



to contribute its share of the $100,000 towards the Reserve on an annual basis. Contributions are calculated on the same percentage basis that each department's total value of buildings bears to the total of all municipal buildings. The Recreation Department's $2,700,000 worth of facilities represents 25 percent of all municipally maintained facilities covered by the Reserve policy. Consequently, following an initial two year period where the Reserve was built up to its operational level, the Recreation Department is required to contribute $25,115 per year towards the Reserve.

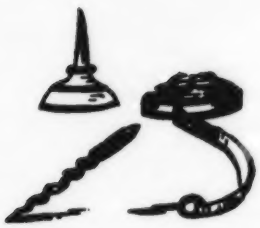
MUNICIPAL BUILDINGS

Department	Property Value	Percentage of Total
Recreation Dept.	$2,700,000	25
Clerk's Dept.	$1,250,000	12
Police Dept.	$ 400,000	4
Fire Dept.	$ 650,000	6
Works Dept.	$4,750,000	44
Transit Dept.	$ 200,000	2
Library/Art Gallery	$ 800,000	7
		100%

It is important to note that only those buildings whose value exceeds $50,000 were included in the inventory for this program. All repairs to buildings under this limit are accommodated from current budget appropriations only. Each building's value was based upon the amount of Fire Insurance Coverage held for that facility.

Managing the Program

The Treasurer's Department has been assigned responsibility for managing the Reserve program. At the commencement of budget preparations each year it calculates the actual dollar requirement applicable to each department/service. Participating departments/services are required to submit this allocation with the remainder of their annual budgets to City Council. These expenditures are subjected to review and approval by City Council as a part of the yearly budget activity.



The Treasurer's Department is also responsible for all payments to be made out of the Reserve. At the beginning of each year, departments/services provide City Council with a list of their anticipated repair needs and funding. Following City Council approval, the Treasurer's Department then allocates these funds and ensures that the proper repairs have been completed. In the event of emergency repairs, no funds from the Reserve may be made available until City Council has approved the expenditure. An important limitation of the Reserve program is that no repair expenditures less than $2,500 are included. "The $2,500 limitation is not to be considered as a deductable but rather a triggering amount that would indicate that the entire expense is to be paid from the Reserve".

At the end of each year's operation of the Reserve, a review is conducted of actual expenditures for repairs to all the buildings included in the program. The report includes projections of anticipated repair needs for the coming year. Also included is an assessment of the Reserve program by all participating departments/services. This assessment determines if it is necessary to revise the Reserve policy in any area. Any revisions must receive majority support from the participants.

In order to ensure continued participation in the program through years of high benefits or those of relatively low dollar returns to a department/service, an agreement in written form was established. If any of the parties, including those under the control of City Council, wish to opt out of the arrangement, a notice period of two years applies. At the end of such a notice period none of the benefits attained or costs incurred during the time prior to opting out are the subject of reimbursement or payment.

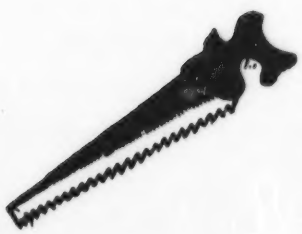
Results

Woodstock's "Reserve for Repairs to Municipal Buildings" is currently in its third year of operation. To date, the fund has been used to finance repairs to a variety of Recreation Department facilities. These include re-roofing the arena, repairing the pool, work on the community centre, and repairing the washroom facilities of a local park.

No problems with the Reserve program have been encountered. All participants report satisfaction with both the contribution and allocation policies. At year end, it is "marvelled as a credit".

Summary

The intent of the policy is to provide support for those larger expenditures that would strain current revenues. The reserve fund is to cover the costs of predictable repair items as well as those that come along throughout the year that were not predictable. The municipality-wide approach to a reserve program provides City Council with the reins of control. It facilitates planned maintenance and ongoing repair schedules.



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